



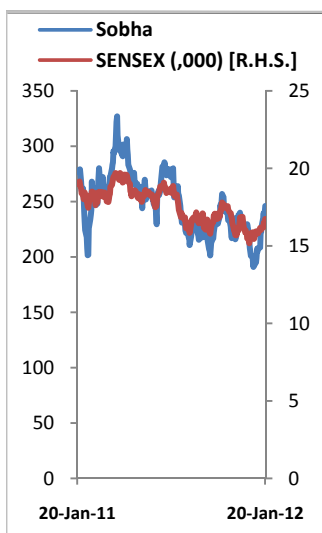
Date: 23rd January 2012

## Stock information

<b>Sector:</b>	<b>Real Estate</b>
<b>CMP</b>	<b>₹243.5</b>
<b>Target Price:</b>	<b>₹325.0</b>
<b>Upside Potential:</b>	<b>33.5%</b>
BSE Code	532784
NSE Code	Sobha
Bloomberg	Sobha@IN
Reuters	SOBH.BO
Mkt cap (mn)	23887.4
Equity shares(mn)	98.1
Face Value(₹)	10
52Weeks H/L	327.0/185.0
Sensex	16751.3
Nifty	5046.3

Shareholding as on 31<sup>st</sup> December 2011 (%)

Promoters	60.6
Mutual Funds/UTI	1.3
FIs/ Banks	0.6
FIIIs	32.2
Bodies Corporate	1.4
Others / Public	3.9



## Q3FY12 Financial Result &amp; Conference Call Highlights:

□ Sobha Developers Ltd's (Sobha) revenue for Q3FY12 stood at ₹3137 mn registering a decline of 12.8% on Y-o-Y basis and by 4.8% on Q-o-Q basis. The company registered a revenue contribution of ₹2188 mn from real estate business and ₹948 mn from contractual & manufacturing business in Q3FY12. During 9MFY12, Sobha's revenues stood at ₹9610 mn showing a decline of 12.6% on Y-o-Y basis.

□ In Q3FY12 Sobha's EBITDA margin improved by 120bps to 24% on Y-o-Y basis, however it has improved by 110bps on Q-o-Q basis. The improvement in the margin was mainly attributed to decline in raw material and construction expenses.

□ Sobha's net profit during the quarter stood at ₹401 mn Vs. ₹490 mn (Q3FY11), registering a decline of 18.2% on Y-o-Y basis. The net profit margin for Q3FY12 declined by 80bps on Y-o-Y basis but it has improved by 40bps on Q-o-Q basis.

□ Sobha sold ~0.82 msf of saleable area in Q3FY12 (Vs ~0.93 msf sold in Q2FY12 and ~0.67 msf in Q1FY12) with improved average sales realization of ~₹5475 /sq ft compared to Q2FY12 sales realization of ₹5196/sq ft. Sobha's cumulative sales stood at ~2.42 msf. The company is expected to launch 4 projects in coming quarter including 2 projects in the new location, Chennai; 1) Sobha Merita, Pudupakkam, Chennai, 2) Sobha Serene at Senneekuppam, Chennai, 3) Sobha Hebittech, Bengaluru, 4) Sobha Hill View, Coimbatore. However Sobha didn't launched any new project in Q3FY12. The company achieved sales value of ₹4483 mn in Q3FY12 registering a growth of ~47% on Y-o-Y basis. Sobha is currently having total unrecognized construction income of ₹9679 mn which will be reflected in coming quarters. During the quarter, Sobha delivered ~1.47 msf of projects to its clients.

□ Considering the challenging industry environment, Sobha is still confident of achieving sales of ~3 msf of developable area in FY12. Sobha also aims to further improve the sales realization and profitability.

□ During Q3FY12, Sobha generated ₹2003 mn as net cash flow from operating activities. Sobha was able to reduce its debt by ₹879 mn. Net debt to equity ratio improved to 0.65x and the company is hopeful of reducing the debt to equity ratio to 0.5x during FY12 through increased operational cash flows. During Q3FY12, Sobha has made investment of ₹415 mn in SDPPL by purchasing equity shares from PAN Atlantic (investors), thereby increasing its stake in SDPPL (which is executing Sobha forest view project) from 67.6% to 100%.

## Valuation:

we maintain "BUY" on Sobha with target price of ₹325 / share (which is at 20% discount to our calculated NAV of ₹405.8/ share). The company is confident of maintaining operating profit margin despite cost pressures. Key risks: new launches in new cities, a sharp slowdown in GDP, the macro environment of IT sector and rising interest rates.

	Revenue (₹ mn)	EBITDA (₹ mn)	EBITDA Margins (%)	PAT (₹ mn)	Net Margins (%)	EPS (₹)	P/E (x)	EV/EBITDA (x)	ROE (%)
<b>FY10</b>	11298.7	2629.7	23.3	1340.5	11.9	14.1	26.0	1.9	8.1
<b>FY11</b>	14561.0	3061.0	21.0	1824.0	12.5	18.6	14.5	1.3	10.0
<b>FY12E</b>	17281.0	3801.8	22.0	2139.1	12.4	21.8	12.4	1.0	10.0

KC Research Reports are also available on Reuters, Thomson publishers, myiris.com and Bloomberg KCSL <GO>

## Sobha Developers Ltd- Q3FY12 Result Update



### Q3FY12- Quarterly Financial Result Analysis: (₹ in mn)

DESCRIPTION	Q3FY12	Q3FY11	Y-o-Y (%)		Q-o-Q (%)		9MFY12	9MFY11	Y-o-Y (%)
			Change	Q2FY12	Change	Change			
Net Sales	3115.0	3597.0	-13.4	3274.0	-4.9	9556.0	10916.0	-12.5	
Other operating income	22.0	0.0	-	20.0	10.0	54.0	75.0	-28.0	
<b>Net Sales &amp; Other Operating Income</b>	<b>3137.0</b>	<b>3597.0</b>	<b>-12.8</b>	<b>3294.0</b>	<b>-4.8</b>	<b>9610.0</b>	<b>10991.0</b>	<b>-12.6</b>	
(Increase) / Decrease In Stocks	-210.0	220.0	-195.5	-4058.0	-94.8	-4266.0	328.0	-1400.6	
Cost of Services & Raw Materials	1867.0	1931.0	-3.3	5769.0	-67.6	9453.0	6285.0	50.4	
Operating & Manufacturing Expenses	424.0	382.0	11.0	512.0	-17.2	1367.0	1223.0	11.8	
Employee Cost	303.0	244.0	24.2	316.0	-4.1	925.0	767.0	20.6	
<b>Total Expenditure</b>	<b>2384.0</b>	<b>2777</b>	<b>-14.2</b>	<b>2539.0</b>	<b>-6.1</b>	<b>7479.0</b>	<b>8603.0</b>	<b>-13.1</b>	
<b>PBITD (Excl OI)</b>	<b>753.0</b>	<b>820</b>	<b>-8.2</b>	<b>755.0</b>	<b>-0.3</b>	<b>2131.0</b>	<b>2388.0</b>	<b>-10.8</b>	
<b>EBITDA Margins (%)</b>	<b>24.0%</b>	<b>22.8%</b>	<b>-</b>	<b>22.9%</b>	<b>-</b>	<b>22.2%</b>	<b>21.7%</b>	<b>-</b>	
Other Income	23.0	17.0	35.3	9.0	155.6	37.0	32.0	15.6	
Operating Profit	776.0	837	-7.3	764.0	1.6	2168.0	2420.0	-10.4	
Interest	93.0	97.0	-4.1	81.0	14.8	275.0	311.0	-11.6	
PBDT	683.0	740	-7.7	683.0	0.0	1893.0	2109.0	-10.2	
Depreciation	106.0	73.0	45.2	91.0	16.5	271.0	209.0	29.7	
PBT	577.0	667	-13.5	592.0	-2.5	1622.0	1900.0	-14.6	
Tax	176.0	177.0	-0.6	183.0	-3.8	503.0	478.0	5.2	
Net Profit (after Eis)	401.0	490	-18.2	409.0	-2.0	1119.0	1422.0	-21.3	
<b>Net Profit Margin (%)</b>	<b>12.8%</b>	<b>13.6%</b>	<b>-6.2</b>	<b>12.4%</b>	<b>3.0</b>	<b>11.6%</b>	<b>12.9%</b>	<b>-10.0</b>	
EPS (Quarterly/ 9M)	4.1	5.0	-18.2	4.2	-1.9	11.4	14.5	-21.3	

### Valuation Summary: (₹ in Mn, Except per share data)

NAV Valuation Summary	NAV/ GAV	NAV/ GAV Per Share	Comments
GAV from Ongoing and Forthcoming Projects	11268.8	114.9	-
GAV of Land Bank	35,903.0	366.0	-
<b>GAV from Real Estate Operations</b>	<b>47,171.8</b>	480.9	NAV Based on Valuation Methodology
Less: Unpaid Land Cost	1281.0	-	-
Less: Net Debt (net of cash)	11161.0	-	Debt As on FY12E
<b>NAV for Real Estate Operation</b>	<b>34729.8</b>	<b>354.0</b>	-
Shares Outstanding ( in Millions)	98.1	-	-
<b>Contract and Manufacturing Business</b>	<b>5080.6</b>	<b>51.8</b>	Based on 7X FY12 EBITDA
<b>Total NAV of Sobha Developers Ltd</b>	<b>39810.4</b>	<b>405.8</b>	-
<b>Discount @ 20%</b>	-	<b>81.2</b>	-
<b>Target Price</b>	-	<b>₹324.6</b>	-

## Sobha Developers Ltd- Q3FY12 Result Update



### Income Statement (₹ in mn) :

Particulars	FY09A	FY10A	FY11A	FY12E	FY13E
<b>Revenue</b>	<b>9740.3</b>	<b>11298.7</b>	<b>14561.0</b>	<b>17281.0</b>	<b>19181.9</b>
<b>Revenue Growth (%)</b>	<b>-31.9%</b>	<b>16.0%</b>	<b>28.9%</b>	<b>18.7%</b>	<b>11.0%</b>
Total Operating Expenses	6952.6	8669.0	11500.0	13479.2	14866.0
EBITDA	2787.7	2629.7	3061.0	3801.8	4315.9
<b>EBITDA margin</b>	<b>28.6%</b>	<b>23.3%</b>	<b>21.0%</b>	<b>22.0%</b>	<b>22.5%</b>
Other Income	148.1	44.3	66.0	66.0	66.0
Gross Profit	2935.8	2674.0	3127.0	3867.8	4381.9
Interest (net)	1074.1	693.4	413.0	545.0	484.4
EBDT	1861.7	1980.6	2714.0	3322.9	3897.5
Depreciation	360.3	323.1	278.0	267.0	272.0
PBT	1501.4	1657.5	2436.0	3055.9	3625.5
Tax	402.3	274.8	612.0	916.8	1087.7
Net Profit	1099.1	1382.7	1824.0	2139.1	2537.9
Minority Interest	-21.2	-42.2	0	0	0
Adj. Net profit	1077.9	1340.5	1824.0	2139.1	2537.9
<b>Net Profit Margin (%)</b>	<b>11.1%</b>	<b>11.9%</b>	<b>12.5%</b>	<b>12.4%</b>	<b>13.2%</b>
EPS	15.1	14.1	18.6	21.8	25.9

### Balance Sheet Statement (₹ in mn):

Particulars	FY09A	FY10A	FY11A	FY12E	FY13E
<b>Sources Of Funds</b>					
Equity Share Capital	729.0	980.6	980.6	980.6	980.6
Reserves	10144.9	16057.3	17585.0	20045.1	24195.3
Networth	10873.9	17037.9	18565.6	21025.7	25175.9
Minority Interest	249.0	291.1	291.1	291.1	291.1
Total Debt	19321.8	14740.4	12110.0	12110.0	12110.0
<b>Total Liabilities</b>	<b>30444.7</b>	<b>32069.4</b>	<b>30675.6</b>	<b>33135.7</b>	<b>37285.9</b>
<b>Application Of Funds</b>					
Net Block	1732.2	1429.1	1372.6	1398.2	1122.7
Capital Work In Progress	515.6	632.0	668.0	701.4	701.4
Investments	27.0	27.0	516.0	516.0	516.0
Inventories	11394.4	11101.4	9726.0	11399.9	12572.7
Sundry Debtors	3683.2	4429.9	3914.0	4645.1	5156.1
Cash and Bank Balance	214.2	825.7	275.0	949.0	3737.5
Total Current Assets	15291.8	16357.0	13915.0	16994.0	21466.3
Loans and Advances	18964.7	20102.3	21517.0	21255.6	22059.2
Total CA, Loans & Advances	34256.5	36459.3	35432.0	38249.6	43525.5
Current Liabilities	5812.9	5984.3	6455.0	6795.3	7542.8
Provisions	304.4	545.1	932.0	981.1	1089.1
Total CL & Provisions	6117.3	6529.4	7387.0	7776.4	8631.9
Net Current Assets	28139.2	29929.9	28045.0	30473.2	34893.7
Deferred tax asset/ liabilities	30.7	51.4	74.0	47.0	52.1
<b>Total Assets</b>	<b>30444.7</b>	<b>32069.4</b>	<b>30675.6</b>	<b>33135.7</b>	<b>37285.9</b>

Source: Company, ACE Equity, KC Research



## Cash Flow Statement (₹ in mn):

Particulars	FY09A	FY10A	FY11	FY12E	FY13E
<b>Opening Cash and Cash Equivalents</b>	<b>286.6</b>	<b>214.2</b>	<b>800.4</b>	<b>275.0</b>	<b>949.0</b>
<b>Net Profit before Tax &amp; Eis</b>	<b>1501.3</b>	<b>1657.5</b>	<b>2436.0</b>	<b>3055.9</b>	<b>3625.5</b>
Total Adjustments (PBT & Eis)	1349.3	943.6	534.6	812.0	756.4
Op. Profit before Working Capital Changes	2850.6	2601.1	2970.6	3867.8	4381.9
<b>Working Capital Changes</b>	<b>-726.5</b>	<b>881.5</b>	<b>1471.6</b>	<b>-1440.0</b>	<b>-24.9</b>
Tax Paid	-296.4	-161.8	-298.7	-916.8	-1087.7
<b>Net Cash from Operating Activities</b>	<b>1827.7</b>	<b>3320.8</b>	<b>4143.6</b>	<b>1511.1</b>	<b>3269.4</b>
Purchased of Fixed Assets(net)	-410.1	-132.5	-224.3	-292.1	3.5
Others	12.6	8.5	5.6	0.0	0.0
<b>Net Cash Used in Investing Activities</b>	<b>-397.5</b>	<b>-124.0</b>	<b>-218.7</b>	<b>-292.1</b>	<b>3.5</b>
Proceeds from Issue of shares	474.7	4619.3	0.0	0.0	0.0
Proceed from other LT Borrowings	1479.1	-4569.2	-2430.7	0.0	0.0
Dividend Paid	-473.4	-72.0	-245.5	0.0	0.0
Interest Paid	-2983.0	-2470.0	-1732.1	-545.0	-484.4
Others	0.0	-93.4	-41.7	0.0	0.0
<b>Net Cash Used in Financing Activities</b>	<b>-1502.6</b>	<b>-2585.3</b>	<b>-4449.9</b>	<b>-545.0</b>	<b>-484.4</b>
Net Inc/(Dec) in Cash and Cash Equivalent	-72.4	611.5	-525.0	674.0	2788.5
Cash and Cash Equivalents at End of the year	214.2	825.7	275.4	949.0	3737.5

## Key Valuation Ratios:

Valuation Ratio	FY09A	FY10A	FY11A	FY12E	FY13E
<b>Operating Margin (%)</b>	<b>28.6%</b>	<b>23.3%</b>	<b>21.0%</b>	<b>22.0%</b>	<b>22.5%</b>
<b>Net Margin (%)</b>	<b>11.1%</b>	<b>11.9%</b>	<b>12.5%</b>	<b>12.4%</b>	<b>13.2%</b>
<b>Debt/ Equity (x)</b>	<b>1.78</b>	<b>0.87</b>	<b>0.65</b>	<b>0.58</b>	<b>0.48</b>
<b>ROCE (%)</b>	<b>4.5%</b>	<b>5.3%</b>	<b>7.5%</b>	<b>8.1%</b>	<b>8.5%</b>
<b>ROE (%)</b>	<b>10.1%</b>	<b>8.1%</b>	<b>9.8%</b>	<b>10.2%</b>	<b>10.1%</b>
<b>EV/EBITDA (x)</b>	<b>0.89</b>	<b>1.90</b>	<b>1.56</b>	<b>1.24</b>	<b>1.03</b>
<b>EV/Sales (x)</b>	<b>0.26</b>	<b>0.44</b>	<b>0.33</b>	<b>0.27</b>	<b>0.23</b>
<b>P/E (x)</b>	<b>5.28</b>	<b>26.03</b>	<b>19.74</b>	<b>16.83</b>	<b>14.19</b>
<b>P/BV (x)</b>	<b>0.53</b>	<b>1.58</b>	<b>1.94</b>	<b>1.71</b>	<b>1.43</b>
<b>EPS (Rs)</b>	<b>15.1</b>	<b>14.1</b>	<b>18.6</b>	<b>21.8</b>	<b>25.9</b>

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